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TESTIMONY

OF

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ON BEHALF OF

NEW ENGLAND POWER GENERATORS ASSOCIATION (NEPGA)

2011– SENATE BILL 1176

CONNECTICUT GENERAL ASSEMBLY

COMMITTEE ON ENERGY AND TECHNOLOGY

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Good afternoon and thank you for the opportunity to testify. My name is Sandi Hennequin and I am the Vice President of the New England Power Generators Association, Inc. ("NEPGA"). NEPGA is the largest trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 27,000 megawatts (MW) – or nearly 85 percent – of generating capacity throughout New England, and over 6,800 MW of generation in Connecticut, representing the vast majority of the electric generating capacity in the state. Overall, NEPGA's Connecticut companies pay approximately $35 million annually in state and local taxes. Our member companies provide 1,800 well-paying and skilled Connecticut manufacturing jobs, while contributing nearly one million dollars to charitable endeavors throughout the state. NEPGA's mission is to promote sound energy policies which will further economic development, jobs and balanced environmental policy.

NEPGA's Position

NEPGA strongly opposes SB 1176. This bill would impose a tax of one half of one mill for oil-fired generation, 2 cents for nuclear-fired generation, and one-half of one cent on coal-fired generation per kilowatt hour on the production of electricity from these generation facilities in Connecticut. The tax on coal-fired generation would only be levied during the peak months of January, February, June, July and August. NEPGA opposes this legislation for the following reasons:

- The proposed generation tax will increase electric costs, and sends a strong anti-business message hindering future resource development and associated job creation in the state.
- This particular generation tax arbitrarily and unfairly targets specific generation technologies and fuel sources.
- The proposed generation tax will adversely impact localities.
- Other states such as New Hampshire, New York, Illinois and Pennsylvania have similarly considered a generation tax and have rejected it as poor public policy.

I would like walk through each of these points and discuss why adopting the proposed generation tax in SB 1176 at this time is simply bad public policy.

A Generation Tax Will Increase Electric Costs and Sends a Strong Anti-Business Message.

NEPGA has been before this Committee numerous times and understands the concerns this Committee and its Chairs have regarding Connecticut's electric rates. Although rates stayed flat or went down this year due to decreases in the generation component of rates, the transmission component of rates increased by double-digit percentages. With Connecticut electricity consumers realizing rate relief this year, it is simply bad public policy to now impose a new tax that will cause electric rates to rise.

This proposed generator tax will cause electric rates to rise. A generator – like any other manufacturer of a product – will incorporate all the costs of making a product into the market price. Thus when a generation plant, in this situation an oil, nuclear or coal plant, sells its product it must factor the extra costs of this new production cost into the final sales price. Much of the power generation from these power plants is contracted with other entities. When the utilities solicit bids for Standard Service, or a retail customer signs up with a competitive electric supplier, the cost to buy this electric supply will be more. This tax, and the impact on the price of electricity, will be paid by all Connecticut electricity consumers.

When the state's policy makers opened Connecticut's markets to competitive generators, our member companies came to Connecticut and invested billions of dollars of private money in the state based upon a clear understanding of the state's business environment, including existing tax burdens. Creating additional tax burdens mid-stream, particularly amidst the current economic climate, sends a strong anti-business message. Because no other state in the region assesses a tax on the production of electricity, Connecticut would be setting a bad precedent by placing its generation facilities at a disadvantage to generators in the other New England states. The tax also provides a clear indication that the state may not offer the regulatory certainty and business environment necessary to ensure successful long-term investments. Sending this type of anti-business message to existing, and potentially new or relocating businesses, particularly those which often times provide the largest tax base to the towns and cities in which they operate, is simply bad public policy that may ultimately prevent future development and job creation in the state.

The Proposed Generation Tax Arbitrarily and Unfairly Targets Specific Generation Resources and Does Not Value the Need for Fuel Diversity.

Generators are manufacturers of electricity. This proposed tax arbitrarily singles out this subset of manufacturing facilities. It is further arbitrary in nature by singling out a subset of electricity manufacturers by proposing this tax on only oil, nuclear and coal facilities (and only during the high peak months of January, February, June, July and August for coal plants). Tax policy should not be used to determine winners and losers, particularly in such an arbitrary fashion.

In addition to arbitrarily singling out specific manufacturers of electricity, this proposed tax shows a lack of recognition for the value of fuel diversity in Connecticut.. Fuel diversity plays a critical role in the overall reliability of New England's power supply and electric grid. Assessing a tax on the production of electricity from oil, nuclear and coal plants sends the message that certain resources, even though they are critically important to the functionality of the regional grid, should be penalized for operating. The rationale for singling out these particular resource types is not clear and is completely subjective. Imposing a generation tax on certain resource types, without a clear rationale, is simply bad public policy. It sets the wrong precedent that in the future a specific generation type may not be in favor with the Legislature and subject to its own arbitrary tax. Instead of discriminating against specific resource types, Connecticut should recognize the important role these facilities play in the local and regional economies as reliable and low-cost producers of energy.

A Generation Tax on Oil, Nuclear and Coal Generation Facilities Could Adversely Impact Localities.

Electric generation plants are critically important members of the communities in which they operate. As noted earlier in this testimony, NEPGA plants contribute approximately $35 million in state and local taxes, the vast majority of which is contributed to the host community. In addition, NEPGA plant owners recognize the value of being good corporate neighbors and contribute to local charitable and nonprofit organizations in their host towns. Imposing this targeted electric generation tax can have impacts on both of these actions. As plants go into negotiations with host communities regarding local property tax assessments and payments, they will invariably factor in other taxes which they already pay and will start at a different negotiating place then they would have without these other taxes. If a plant is paying millions of dollars in state generation taxes, these are millions of dollars they will not have available for the discussions with the towns. Moreover, the imposition of this tax impacts the profitability of the plant and forces the owners to take a harder look at any "discretionary" spending such as the type of spending plants allocate to community and charitable activities. Any legislation that puts more pressure on financially challenged localities is not good public policy.

Other States Considering a Generator Tax Have Rejected the Tax.

The budgetary pressures challenging Connecticut are prevalent in many other states throughout the region and the country. Other states have considered a broad array of tax proposals in an effort to find new sustainable revenue streams, including a generator tax. Last year New Hampshire faced a $295 Million budget gap for 2010 (on a budget of $11.5 Billion). The New Hampshire House passed a budget gap bill with a variety of tax increases, including a proposed generator tax of $.00055 per kilowatt hour on all production from New Hampshire generating facilities. The Senate's budget gap bill did not include this generator tax. In May, a conference committee met daily for a week to craft a compromise bill to close the budget gap for 2010. New Hampshire Governor John Lynch called a special one-day session of the Legislature in early June to complete the work of the conference committee. In the end, the Legislature crafted a bill to close the budget gap, but due to the uncertainty over how the proposed tax would impact consumers and the uncertainty over its projected revenue stability, the Democratic majorities in the Legislature and Governor Lynch rejected the proposed generator tax. As New Hampshire addresses its tight budgetary environment for 2011, the generator tax is no longer being discussed as a policy option.

New Hampshire is not the only state to consider and reject a generator tax. Last year, legislative negotiations over the 2010-2011 New York State budget included a proposed generator tax. Ultimately, after evaluating the impact of the proposed tax on consumers and businesses, the proposal for a broad-based generator tax was rejected and not included in the final New York budget. Several years ago, Illinois and Pennsylvania also considered legislation that included a tax on in-state power generation. These proposals lacked sufficient support for passage. These other states have considered this tax for many of the same reasons that Connecticut is, and have ultimately rejected it. Connecticut should do the same.

Conclusion

In summary, NEPGA strongly opposes SB 1176. This tax targets specific electric generation manufacturing facilities and it will cause electric rates in Connecticut to rise. Much of the power from these plants is sold through forward contracts. If the cost to produce the power goes up, the contract prices will necessarily follow, a direct impact on consumers. At the same time it sends a strong anti-business message by arbitrarily targeting a certain subset of manufacturers and making Connecticut the only state in the country to impose a generation tax on its electricity manufacturing businesses. Other states such as New Hampshire, New York, Illinois and Pennsylvania have seriously considered a similar tax and have rejected it. Imposing this tax adversely impacts localities by funneling existing dollars from local taxes and community expenditures to a state tax. For all these reasons, NEPGA strongly urges the Committee to not pass SB 1176.

Thank you for this opportunity to testify before you today. I would be happy to answer any questions from the Committee.